



California Public Employees' Retirement System  
Actuarial Office  
P.O. Box 942709  
Sacramento, CA 94229-2709  
TTY: 877-249-7442  
(888) CalPERS (225-7377) phone • (916) 795-2744 fax  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

## Agenda Item 5c

December 13, 2011

### **TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE**

- I. SUBJECT:** Review of General Actuarial Policies Regarding Funding Methods and Assumptions
- II. PROGRAM:** Benefits and Program Administration
- III. RECOMMENDATION:**

That the Committee approve and recommend to the Board adoption of the following actuarial policies:

- Board resolution ACT-95-05D (rev.) regarding actuarial assumptions
- Board resolution ACT-98-001 regarding the adjustment of actuarial factors for the administration of benefits
- Board resolution ACT-99-03 (rev.) regarding employer contributions in excess of actuarially determined rate

### **IV. ANALYSIS:**

In October, the Actuarial Office informed members of this Committee that the Actuarial Office would review all Board actuarial policies in a revolving three year cycle. Over the last sixteen years, the Board has approved over twenty separate Board actuarial policies. Some of these policies were adopted as early as 1995 and have not been formally reviewed since that time.

The purpose of these reviews is to recommend changes, if necessary, which ensure all actuarial policies are current, that they are consistent with the Board's fiduciary duties and that they are consistent with the CalPERS mission and core values.

This is the first phase of the proposed three year cycle. For this first phase, Staff reviewed the general policies regarding funding methods and assumptions. Of the five policies being reviewed, staff is recommending no changes to two of the policies ("General" and "Funding Method"). Staff is recommending minor changes to two other policies ("Adjustment of Actuarial Factors" and "Employer Contributions in Excess of the Actuarially Determined Rate") by clarifying some of the wording and tightening some areas of the policies. Staff is recommending

more significant changes to one of the policies ("Actuarial Assumptions") with the addition of a recurring economic study and a deletion of the goal of plan specific assumptions. More details on the review and the proposed changes are included below.

### **Actuarial Policies – General**

Board Resolution ACT-95-05A (Actuarial Policies – General) was adopted in May of 1995 after Proposition 162 granted the Board of Administration plenary authority and fiduciary responsibility to provide actuarial services. This policy sets the framework for all succeeding policies.

*Staff recommends no change to this policy.* A copy of Board Resolution ACT-95-05A can be found in Attachment 1.

### **Actuarial Policies – Funding Method**

In May of 1995, the Board adopted Board Resolution 95-05B which selected the Entry Age Normal (EAN) funding method to achieve inter-generational equity in the funding of benefits. Staff supports the continued use of the EAN funding method for the reason stated in the original policy. It should also be noted that current government accounting standards allow the use of six different funding methods, including EAN. The Government Accounting Standards Board is in the process of changing its standards and is expected to require the use of the EAN funding method.

*Staff recommends no change to this policy.* A copy of Board Resolution ACT-95-05B can be found in Attachment 2.

### **Actuarial Policies – Actuarial Assumptions**

Board resolution ACT-95-05D regarding actuarial assumptions was first adopted by the Board in May 1995 and later revised in November 1996. This policy governs the selection of actuarial assumptions.

*Staff recommends two changes to this policy.* First, eliminate the goal of utilizing actuarial assumptions that are specific to the experience of each CalPERS plan. This goal was put into the policy to address the situation of very small plans which is no longer a consideration with the implementation of risk pooling. Second, replace the requirement for a report on gains and losses due to economic factors with a review, once every four years, of economic assumptions. Staff believes this will be a more effective approach of keeping economic assumptions current. See Attachments 3a and 3b for marked-up and clean copies of the proposed changes to the Board resolution ACT-95-05D.

### **Actuarial Policies – Adjustment of Actuarial Factors**

Board Resolution AESD-98-001 was adopted in March 1998 and relates to when to update actuarial factors. The original policy did not reference service purchase factors or other actuarial factors used in the administration of pension benefits. In addition, the original policy did not consider all assumptions that could impact actuarial factors.

*Staff recommends adding* language to cover all actuarial factors used in the administration of pension benefits whenever there is a change in any of the underlying assumption that may have a significant impact on the factors. In addition, *staff recommends amending* the title and number of this policy for consistency. See Attachments 4a and 4b for marked-up and clean copies of the proposed changes to the Board resolution ACT-98-001.

### **Actuarial Policies – Employer Contributions in Excess of the Actuarially Determined Rate**

Board Resolution ACT-99-03 was adopted in March 1998 and later revised in June 2004 and relates to the acceptance of employer contributions in amounts over and above the normal rate of contribution.

Staff continues to believe that this policy is reasonable and consistent with the Board's fiduciary duties. However, the current policy only applies to public agencies. The Board took action in 2009 to extend this concept to the State but the policy itself was never updated.

*Staff recommends amending* the language of the policy to make it applicable to all employers. See Attachments 5a and 5b for marked-up and clean copies of the proposed changes to the Board resolution ACT-99-03.

## **V. RISKS:**

This review of Board policies and the adoption of the proposed changes will mitigate the risk that the Board actuarial policies fail to meet the Board fiduciary duties or are not consistent with the CalPERS mission and core values. The only identifiable risk of adopting the proposed changes is that the new policies might not accomplish the Board's goals as well as the old policies would have.

**VI. STRATEGIC PLAN:**

This item supports Goals I CalPERS Strategic Goals, to exercise global leadership to ensure the sustainability of CalPERS' pension and health benefit systems.

**VII. RESULTS/COSTS:**

The costs are expected to be part of the regular and ongoing workload of the Actuarial Office.

---

DAVID LAMOUREUX  
Deputy Chief Actuary  
Actuarial Office

---

ALAN MILLIGAN  
Chief Actuary

Attachments